

Message Text

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FOR WARNE

FOLLOWING REPEAT OECD PARIS 28774 ACTION SSECSTATE INFO CAIRO
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CAIRO FOR PFOUTZ

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SUBJECT: DAC WP/FA MEETING, SEPT. 23-24, 1976 - UNTYING

REF: OECD PARIS 28446

1. SUMMARY: THE FOLLOWING DAC MEMBERS, IN ADDITION TO
U.S., AGREED TO PARTICIPATE IN RECIPROCAL UNTYING NEGOTIATIONS: GERMANY, U.K., NORWAY, SWEDEN, JAPAN,
NETHERLANDS, ITALY, DENMARK, SWITZERLAND AND BELGIUM.
ALSO APPEARS THAT AUSTRALIA, AUSTRIA AND NEW ZEALAND WILL
PARTICIPATE. HOWEVER, SOME MEMBERS HAVE IMPORTANT
RESERVATIONS. FRANCE SAID IT WILL NOT PARTICIPATE.
CANADA WAS QUIET. LENGTHY DISCUSSIONS ON EXCEPTIONS
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CENTERED ESPECIALLY ON U.S. DEROGATION EXCLUDING SUPPORTING ASSISTANCE (SA) LOANS FROM THE AGREEMENT; UNDER
CONSIDERABLE PRESSURE WE RESERVED POSITION ON THESE
LOANS WHILE STRESSING THE KEY ROLE SA FUNDS PLAY IN

SUPPORTING VERY HIGH PRIORITY POLITICAL/SECURITY/PEACE OBJECTIVES IMPORTANT NOT ONLY TO U.S. BUT TO ALL DAC COUNTRIES. OTHER DELEGATIONS APPRECIATE IMPORTANCE OF THESE OBJECTIVES, BUT NEVERTHELESS DISAPPOINTED THAT U.S. PROPOSES TO CONTINUE TO TIE WHAT IS NOW THE MAJORITY OF ITS LOAN PROGRAM. GOOD PROGRESS MADE IN DISCUSSIONS ON DRAFT AGREEMENT AND PROCUREMENT GUIDELINES. NEXT MEETING ON UNTYING SCHEDULED FOR NOVEMBER 2-4; OUR IDEAS ON U.S. PREPARATIONS FOR THIS MEETING FOLLOW SHORTLY. END SUMMARY.

2. THIS CABLE COVERS IMPORTANT SUBJECT OF UNTYING DISCUSSED AT THIS ACTIVE TWO-DAY DAC WP/FA MEETING. DISCUSSION ASSISTED BY THE VARIOUS DOCUMENTS LISTED IN PARA 4 OF DAC/FA/A(76)3. OUR EARLIER REFTEL REVIEWED TERMS AND CONDITIONS OF AID.

3. DISCUSSION OF UNTYING COMMENCED WITH REVIEW BY CHAIRMAN CHADWICK AND SECRETARIAT (KROLLER) OF PAST WORK OF DAC IN THIS AREA, INCLUDING UNTYING OF MULTILATERAL CONTRIBUTIONS AND OF BILATERAL ODA LOANS IN FAVOR OF PROCUREMENT IN LDC'S. CHAIRMAN AND U.S. MADE IT CLEAR THAT DISCUSSIONS DAC NOW ENGAGED IN INVOLVE PROPOSED RECIPROCAL UNTYING OF BILATERAL ODA LOANS. (DENMARK WAS ONLY COUNTRY IN THE SUBSEQUENT DISCUSSION TO RAISE POSSIBILITY OF UNTYING GRANTS ALSO; THIS WAS NOT ACTIVELY PURSUED BY OTHER SPEAKERS.)

4. U.S. SPOKESMAN THEN BRIEFLY OUTLINED OUR PROPOSAL STEMMING FROM SECRETARY'S SPEECH BT NAIROBI. WE ALSO STRESSED THAT FORWARD MOVEMENT IN AREA OF UNTYING COULD ASSIST CIEC DIALOGUE; THIS VIEW STRONGLY SUPPORTED BY SWEDEN, U.K., AND OTHERS. BECAUSE OF AMOUNT OF WORK NEEDED FOR SUCCESSFUL CONCLUSION OF AN AGREEMENT, THERE IS GENERAL VIEW THAT FINAL ACTION BY DECEMBER CIEC MINISTERIAL HIGHLY UNLIKELY. HOWEVER, SINCE PURPOSE OF CIEC IS TO "ENERGIZE" ACTIVITIES IN OTHER PERTINENT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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BODIES, FINAL CONCLUSION NOT CONSIDERED NECESSARY. FACT THAT NEGOTIATIONS ON THIS TOPIC IN DAC ARE WELL ADVANCED BY DECEMBER COULD STILL BE CONSIDERED AS ONE ELEMENT IN G-8 RESPONSE TO G-19. JAPAN SUGGESTED THAT UNTYING ALSO BE DISCUSSED IN GENERAL TERMS BY AID MINISTERS AT FORTHCOMING DAC HIGH-LEVEL MEETING TO GIVE IT "POLITICAL IMPETUS"; (I.E., AMONG OTHER THINGS, ASSIST PRO-UNTYING FACTION WITHIN GOJ); THIS WAS SUBSEQUENTLY AGREED AT DAC PLENARY ON SEPTEMBER 27.

5. IN LONG SERIES OF STATEMENTS THE FOLLOWING DAC MEMBERS, IN ADDITION TO U.S., INITIALLY AGREED TO PARTI-

CIPATE IN THE NEGOTIATIONS: GERMANY, U.K., NORWAY, SWEDEN, JAPAN, NETHERLANDS, ITALY, DENMARK, SWITZERLAND, AND BELGIUM. NOTE THAT THIS LIST INCLUDES FOUR OF THE FIVE QUANTITATIVELY LARGEST DONORS, I.E., U.S., JAPAN, GERMANY, AND U.K., BUT NOT FRANCE. BUT SOME HAD IMPORTANT RESERVATIONS, E.G., U.K. AND ITALY WILL ONLY PARTICIPATE IN FINAL AGREEMENT IF MOST MEMBERS, INCLUDING MOST MAJOR DONORS AND MOST ODA LOANS, INCLUDED; SWEDEN'S VIEWS NOT YET "OFFICIAL" PENDING COMPLETION OF GOVERNMENT CHANGE; AND BELGIUM STRESSED IT WOULD JOIN ONLY A "FULLY RECIPROCAL" AGREEMENT (NOT DEFINED).

6. AUSTRALIA, AUSTRIA, AND NEW ZEALAND EITHER RESERVED OR DID NOT SPEAK DIRECTLY TO THIS POINT, BUT IT APPEARS THEY WILL PARTICIPATE IN THE NEGOTIATIONS WHILE STRESSING THEY ARE NOT COMMITTED TO ANYTHING. FINLAND, WHICH AT PREVIOUS WP/FA MEETING ON JULY 19 HAD STRONGLY SAID IT PROBABLY COULD NOT UNTIE, HAS SOFTENED ITS POSITION AND NOW WILL AT LEAST PARTICIPATE IN DISCUSSIONS. CANADA DID NOT SPEAK (CANADIAN REP PRIVATELY TOLD US HE WAS INSTRUCTED JUST TO LISTEN AND REPORT TO OTTAWA. GENERAL CANADIAN POSITION IS TO SUPPORT UNTYING IN PRINCIPLE, BUT THEY MAY WANT TO CONTINUE TO TIE CERTAIN ODA LOANS.) FRANCE WAS ONLY MEMBER WHO SAID IT COULD NOT PARTICIPATE IN THE NEGOTIATIONS. FRENCH REP SAYS HIS COUNTRY DOES NOT CONSIDER UNTYING IMPORTANT EITHER ECONOMICALLY OR IN CIEC CONTEXT. EC REP DID NOT SPEAK.

7. MOST LENGTHY AND DIFFICULT PART OF THE DISCUSSIONS
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CONCERNED U.S. DEROGATION EXCLUDING SUPPORTING ASSISTANCE (SA) LOANS (NO OTHER MEMBER HAS DIFFERING CATEGORIES OF ODA LOANS). WE WERE UNDER CONSTANT QUESTIONING ON THIS MATTER DURING THE TWO DAYS, AND EXPLAINED AT LENGTH IN VARIOUS WAYS THE CONCEPT OF SA AND THE KEY PURPOSE SUCH FUNDS PLAY IN SUPPORTING VERY HIGH PRIORITY POLITICAL/ SECURITY/PEACE OBJECTIVES IMPORTANT NOT ONLY TO THE U.S. BUT TO ALL DAC COUNTRIES. STRESSED THESE FUNDS USED MOSTLY IN MIDDLE EAST. WE SAID WE WERE DISCUSSING UNTYING OF OUR BILATERAL DEVELOPMENT ASSISTANCE LOANS ONLY, AND RESERVED POSITION ON SA LOANS. BUT STRESSED THAT DL COMMITMENTS NOW RUNNING AT THE VERY SIZEABLE FIGURE OF ABOUT \$550 MILLION PER YEAR (DID NOT MENTION PURCHASES OF LOCAL CURRENCY WITH SOME OF THESE FUNDS). OTHERS AGREED THAT THIS FIGURE SIZEABLE AND CONCURRED THAT SA SUPPORTS VERY IMPORTANT OBJECTIVES. NEVERTHELESS EXPRESSED DISAPPOINTMENT THAT U.S. PROPOSING TO UNTIE MUCH LESS THAN HALF OF TOTAL ODA LOANS (EXCLUDING PL-480 LOANS, WHICH ALL AGREE MUST REMAIN TIED). SWEDEN DIRECTLY AND JAPAN BY IMPLICATION SAID THEY WILL HAVE

TO RECONSIDER THEIR DECISIONS TO PARTICIPATE IN THESE NEGOTIATIONS IN LIGHT OF U.S. SA DEROGATION. BELGIUM, NETHERLANDS, AND DENMARK REPS ALSO APPEARED SIGNIFICANTLY CONCERNED. FRENCH REP SAID U.S. ANNOUNCEMENT ON SA WOULD INFLUENCE HIS GOVERNMENT'S ATTITUDE ON WHETHER OR NOT TO AGREE TO OECD-SPONSORED AGREEMENT, IF ONE ACHIEVED. WHEN WE RESPONDED TO DUTCH QUERY THAT SA IS USED FOR ECONOMIC DEVELOPMENT PROJECTS AND PROGRAMS AND THUS IS REPORTED AS ODA, U.K. QUESTIONED WHETHER IT SHOULD BE SO REPORTED IN FUTURE. (THIS POINT IN ALL LIKELIHOOD ALSO WILL COME UP AT REVIEW OF U.S. PROGRAM OCTOBER 13; MATTER OF SA DEROGATION MAY COME UP AT BOTH U.S. REVIEW AND INFORMAL HIGH-LEVEL MEETING SESSION.)

8. WE ADDED THAT, AS IN PREVIOUS UNDERSTANDING, U.S. WOULD REQUIRE TWO OR THREE OTHER DEROGATIONS, FOR SHIP-PING SERVICES (50-50), AUTOMOTIVE PRODUCTS, AND POSSIBLY MARINE INSURANCE IN SOME CASES. WE EXPLAINED THE LEGISLATIVE BASIS OF THESE DEROGATIONS AT REQUEST OF CHADWICK AND OTHERS. OTHERS DO NOT APPEAR TO HAVE MAJOR LIMITED OFFICIAL USE
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PROBLEMS WITH THESE DEROGATIONS. GERMANY WAS ONLY OTHER COUNTRY TO MENTION REQUIREMENT FOR SPECIFIC DEROGATION AT THIS MEETING, FOR SHIP-BUILDING, WHICH MUST REMAIN TIED TO PROCUREMENT IN GERMANY. GERMAN REP SAID NO COMMITMENTS MADE FOR SHIP-BUILDING DURING CALENDAR YEAR 1975, BUT PLAN TO LEND \$80 MILLION FOR THIS PURPOSE IN 1976. POSSIBILITY OF CONTINUED JAPANESE DEROGATION FOR "DIPLOMATIC COMMITMENTS" TO OIL-PRODUCING LDC'S WAS RAISED, BUT IT APPEARS ALL OF THESE MAY HAVE ALREADY BEEN HONORED; IF SO, NO DEROGATION NECESSARY. HOWEVER, SOME SPOKESMEN RESERVED RIGHT DURING NEGOTIATIONS TO REQUEST DEROGATIONS RECIPROCAL TO THOSE TAKEN BY OTHERS, EVEN THOUGH CHADWICK ATTEMPTED TO DISCOURAGE THIS. BUT HOPE EXPRESSED BY SEVERAL SPEAKERS AT END THAT THERE SHOULD BE AS FEW DEROGATIONS AS POSSIBLE.

9. IN ADDITION TO SPECIFIC COUNTRY DEROGATIONS FOR SPECIFIC TYPES OF ASSISTANCE OR GOODS (I.E., U.S. AND GERMANY ABOVE), MEMBERS REVIEWED PROBABLE GENERAL EXCLUSIONS APPLICABLE TO ALL PARTICIPANTS. INCLUDED ARE LOANS FOR AGRICULTURAL PRODUCTS (INCLUDING BOTH DEVELOPMENT ASSISTANCE LOANS AND PL-480) AND TECHNICAL ASSISTANCE. MATTER OF "MIXED CREDITS" ALSO MUST BE DISCUSSED FURTHER. BUT IN GENERAL WE FORESEE NO MAJOR PROBLEMS AT THIS TIME WITH RESPECT TO SUCH GENERAL EXCLUSIONS.

10. THE MAJOR QUESTION ARISING FROM THE LENGTHY DISCUS-

SIONS REGARDING SPECIFIC DEROGATIONS AND GENERAL EXCLUSIONS ABOVE IS HOW MUCH OF EACH PARTICIPANT'S LOAN PROGRAM WOULD IN FACT BE INCLUDED IN RECIPROCAL UNTYING AGREEMENT. TO PUT IT ANOTHER WAY, HOW MUCH ADDITIONAL BUSINESS WILL THERE BE TO COMPETE FOR. WE POINTED OUT THAT TABLE IN DAC/FA(76)6, COVERING BILATERAL ODA LOAN COMMITMENTS FOR 1974-75 IS NOT AN ADEQUATE ILLUSTRATION FOR THIS PURPOSE. U.S. FIGURES IN THIS PAPER OBVIOUSLY FAR TOO HIGH, AS OTHER PARTICIPANTS DID NOT HESITATE TO POINT OUT. BUT DATA FOR OTHERS ALSO MUST BE REDUCED BY ANY AMOUNTS FOR SPECIFIC AND GENERAL EXCLUSIONS PLUS PURCHASES OF LOCAL CURRENCY FOR INDIGENOUS FINANCING. AND THESE FIGURES, EVEN WHEN ACCURATE, WILL
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ONLY ILLUSTRATE WHAT MIGHT HAVE HAPPENED IN THE PAST, NOT WHAT WILL IN FACT RESULT IN FUTURE. (AS RESULT OF SEPARATE CONVERSATIONS WE HAVE HAD WITH VARIOUS PARTICIPANTS FOLLOWING THIS MEETING, SECRETARIAT IS REQUESTING ADDITIONAL NECESSARY DATA FROM DELEGATIONS. WE EXPECT A LETTER SHORTLY, AND WILL CABLE YOU UPON RECEIPT.)

11. REGARDING LEGAL STATUS OF AGREEMENT, U.S. AND MOST SPEAKERS FEEL RESOLUTION OF THIS ISSUE NOT IMPORTANT AT THIS TIME. MOST APPARENTLY WILL GO ALONG WITH INFORMAL, NON-BINDING AGREEMENT, INCLUDING DENMARK AND SWITZERLAND, BOTH OF WHOM, HOWEVER, WOULD PREFER LEGALLY-BINDING AGREEMENT. BELGIUM SAID IF DEROGATIONS ARE EXTENSIVE A BINDING AGREEMENT WOULD BE INAPPROPRIATE. ONLY NETHERLANDS SAID FRANKLY IT WOULD WANT BINDING AGREEMENT. BELGIAN REP ASKED IF U.S. WOULD NEED CONGRESSIONAL APPROVAL OF ANY AGREEMENT; WE SAID THIS WILL DEPEND ON ITS FORM AND NATURE, AND NO ANSWER POSSIBLE AT THIS TIME.

12. SWEDISH PROPOSAL FOR SIMPLIFIED PROCUREMENT GUIDELINES DOCUMENT DISCUSSED AT LENGTH. CONSENSUS, LED BY U.S., U.K., GERMANY, BELGIUM AND NETHERLANDS, WAS THAT IT UNSATISFACTORY BECAUSE ESTABLISHES NO CLEAR STANDARDS AGAINST WHICH REASONABLENESS AND FAIRNESS OF PROCUREMENT PROCEDURES AND AWARDS CAN BE EXPLAINED AND JUSTIFIED TO HANDLE BIDDERS COMPLAINTS. CHADWICK SAID THAT LDC'S SHORT OF MANAGEMENT TALENT PRESUMABLY WOULD PREFER SHORTER GUIDELINES. BUT WE AND OTHERS RESPONDED THAT MOST LDC PROCEDURES NOW ARE IN FACT MORE COMPLEX THAN PRESENT VERSION OF GUIDELINES, WHICH CAN BE IMPLEMENTED WITHOUT UNDUE STRAIN. THESE GUIDELINES ALSO WILL SERVE TO ASSIST LDC'S IN ADOPTING GOOD PROCUREMENT PRACTICES. CONSENSUS FINALLY WAS THAT PRESENT VERSION OF PROCUREMENT GUIDELINES ADEQUATE AS STARTING POINT LOOKING TO FINAL DRAFT ACCEPTABLE TO ALL PARTICIPANTS. U.K. SUGGESTED VARIOUS WAYS TO SHORTEN TEXT. GERMANY URGED ADDING

LANGUAGE WHICH WOULD HAVE EFFECT OF RECOGNIZING THAT
NON-PROJECT ASSISTANCE WOULD NOT NECESSARILY BE SUBJECT
TO ALL FORMAL PROCUREMENT REQUIREMENTS OF GUIDELINES; NO
OTHER DELEGATION OBJECTED IN PRINCIPLE TO THIS REFINEMENT.
NUMEROUS OTHER SPECIFIC POINTS NOW IN DRAFT WERE DIS-
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CUSSED, BUT NO DEFINITE AGREEMENTS REACHED.

13. IT WAS DECIDED AT END OF SECOND DAY THAT THERE ARE
ENOUGH MEMBERS INTERESTED IN PURSUING UNTYING DISCUSSIONS
TO WARRANT ANOTHER MEETING AT EARLY DATE. ALSO, PROCURE-
MENT GUIDELINES DRAFT NEEDS EXTENSIVE, DETAILED LOOK BY
EXPERTS. THEREFORE, PARTICIPANTS DECIDED THAT NEXT
MEETING WILL BE HELD NOVEMBER 2-4, WITH FIRST DAY AND
HALF BEING PROCUREMENT EXPERTS ONLY (PFOUTZ FOR U.S.),
AND REMAINING DAY AND HALF BEING NORMAL WP/FA MEETING
WITH UNTYING AS ONLY TOPIC. OUR IDEAS ON U.S. PREPARA-
TIONS FOR THIS MEETING WILL FOLLOW SHORTLY.

KATZ

UNQTE: KISSINGER

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